



State of Utah
DEPARTMENT OF NATURAL RESOURCES
DIVISION OF OIL, GAS AND MINING

Michael O. Leavitt
Governor

Ted Stewart
Executive Director

James W. Carter
Division Director

355 West North Temple
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Salt Lake City, Utah 84180-1203
801-538-5340
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801-538-5319 (TDD)

October 11, 1995

TO: Board of Oil, Gas and Mining

THRU: James W. Carter, Director *JWC*

THRU: Lowell P. Braxton, Associate Director *LPB*

FROM: D. Wayne Hedberg, Permit Supervisor, Minerals Reclamation Program *DWH*

RE: Request for Board Consideration, Self-bonding Contract Proposal, Kennecott Utah Copper Corporation, North Impoundment Expansion Project, M/035/015, Salt Lake County, Utah

Kennecott Utah Copper Corporation has requested an opportunity to address the Board of Oil, Gas and Mining during the executive session of its October 25, 1995 hearing. Mr. Kenneth P. Done of Kennecott Corporation has asked if he could present a conceptual self-bonding proposal to the Board regarding Kennecott's latest North Impoundment Expansion Project. This project is nearing the final stages of permitting with the Division. A preliminary reclamation cost estimate of \$16,000,000 has been calculated by Kennecott. Should the Board look favorably upon the conceptual self-bonding proposal, Kennecott would then be prepared to make a formal request seeking the Board's approval of a self-bonding contract as the preferred form of surety at a future (probably December 1995) hearing. The Division does not have a recommendation on this conceptual proposal at this time. However, we would find it difficult to accept and keep confidential, any information that is not contemplated or defined as acceptable material by appropriate rule and/or statute.

Attached for your review are copies of the following documents:

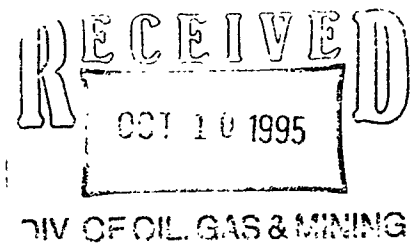
1. Cover letter to James W. Carter (requesting October/95 Board appearance).
2. Attachment I - Kennecott's Position
3. Attachment II - Summary of Financial Strength (per DOGM Self-bonding Qualification Sheet)
4. Attachment III - Draft Cover Letter (addressing Kennecott's confidential 1994 Annual Report)

Thank you for your time and consideration of this request.

Attachments
M035015.slf



Kennecott Corporation
10 East South Temple
P.O. Box 11248
Salt Lake City, Utah 84147
(801) 322-7000



Kennecott

October 10, 1995

Mr. James W. Carter
Director, Utah Department of Natural Resources
Division of Oil, Gas and Mining
355 West North Temple
3 Triad Center, Suite 350
Salt Lake City, Utah 84180-1203

Dear Mr. Carter:

The purpose of this letter is to request your assistance in providing me with an opportunity to address the Board of Oil, Gas and Mining during their Board meeting scheduled for October 25, 1995.

My comments will focus on Kennecott Utah Copper Corporation's desire to self bond our reclamation responsibilities associated with an expansion of our existing tailings impoundment. The expansion being referred to as the North Impoundment Project. In addition, if the timing is appropriate, I would like to address the issue of self bonding in general for large mining companies within the State of Utah.

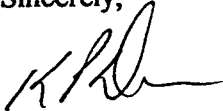
In requesting your assistance in securing a spot on the October 25, 1995 agenda, please be advised of the following (Attachment I is a summary of our position, which along with Attachments II and III could be delivered to Board members for their review prior to the October 25 Board Meeting):

- We have reviewed the State of Utah Department of Natural Resources Division of Oil, Gas and Mining's (the Division's) amended and new rules for minerals reclamation programs R647-1 through R647-5 and believe that we will meet our responsibilities as established by the rules, as related to the North Impoundment Project.
- We have reviewed the Division's standard reclamation contract and believe that we will meet our responsibilities as outlined in connection with the North Impoundment Project.
- We have reviewed the Division's Self Bonding and Indemnity Agreement and believe that we will be able to comply with the covenants of the agreement.

- We believe that we can meet the spirit of the requirements of rule R647-4-113 part 4.16 which states that the Board may accept a written self-bonding agreement in the case of operator's (Kennecott Utah Copper Corporation, a wholly-owned subsidiary of Kennecott Holdings Corporation) sufficient financial strength. Attachment II is a summary of our financial strength as required by the Division's Self Bonding Qualification Sheet. Attachment III is a confidentiality agreement (or similar agreement if this is not acceptable to the Division) that we would request the Division to sign prior to providing the Division with our financial statements. We believe the agreement is drafted in the spirit of Rule R647-4-115 entitled "Confidential Information".

Please let me now if you have been successful in securing a spot on the agenda, as soon as possible. You can reach me at 322-8004. Thank you for your assistance.

Sincerely,



K. P. Done

Attachments

KENNECOTT'S POSITION

Kennecott respectfully requests the Board of the Division of Oil, Gas and Mining to consider our position that we meet the requirements to self bond our reclamation responsibilities (estimated at \$16 million) associated with an expansion to our existing Tailings Impoundment. (The expansion being referred to as the North Impoundment Project).

In requesting the Board to consider this position, please be advised of the following:

- We have reviewed the State of Utah Department of Natural Resources Division of Oil, Gas and Mining's (the Division's) amended and new rules for minerals reclamation programs R647-1 through R647-5 and believe that we will meet our responsibilities as established by the rules, as related to the North Impoundment Project.
- We have reviewed the Division's standard reclamation contract and believe that we will meet our responsibilities as outlined in connection with the North Impoundment Project.
- We have reviewed the Division's Self Bonding and Indemnity Agreement and believe that we will be able to comply with the covenants of the agreement.
- We believe that we can meet the spirit of the requirements of rule R647-4-113 part 4.16 which states that the Board may accept a written self-bonding agreement in the case of operator's (Kennecott Utah Copper Corporation, a wholly-owned subsidiary of Kennecott Holdings Corporation) sufficient financial strength. Attachment II is a summary of our financial strength as required by the Division's Self Bonding Qualification Sheet. Attachment III is a confidentiality agreement (or similar agreement found acceptable by the Division) that we would request the Division to sign prior to providing the Division with our financial statements. We believe the agreement is drafted in the spirit of Rule R647-4-115 entitled "Confidential Information".

If the Board accepts our position, we will work with the Division to draft a confidentiality agreement that is acceptable to the Division and to Kennecott, and provide the Division with the required financial statements that support our financial strength.

In conclusion, self bonding on a \$16 million surety obligation can save Kennecott between \$63,000 and \$160,000 annually, and we believe our financial strength warrants your approval to allow us to self bond.

SUMMARY OF FINANCIAL STRENGTH
PER THE DIVISIONS SELF BONDING
QUALIFICATION SHEET

1. Current Rating Not Applicable

or

2. A- Tangible Net Worth Significantly greater than \$10 million

B- Total Liabilities/Net Worth
(2.5 times or less)

2.55/1 at June 30, 1995

This does not meet the 2.5/1 requirement, however net worth is well over 50 times that of the required \$16 million surety, and with the current copper prices the ratio should be at or below 2.5/1 prior to the Board allowing Kennecott to self bond.

C- Current Assets/Current Liabilities
(1.2 times or greater)

2.88/1 at June 30, 1995

or

3. Not Applicable as two was completed
however:

A- Fixed Assets in the United States
(At least \$20 million)

Significantly greater than \$20 million

B- Same as 2B

C- Same as 2C

Has the operator been in continuous operation
for not less than 5 years? (Submitted 5 annual
reports)

Yes, we can submit 5 years of annual reports

Has the operator furnished financial statements
prepared by an independent certified public
accountant in conformity with generally
accepted accounting principles?

We can

Has the operator furnished unaudited financial
statements for completed quarters in the
current fiscal tax year?

We can

Has the operator supplied other useful
information determining financial qualifications? We can

Kennecott Corporation
10 East South Temple
P.O. Box 11248
Salt Lake City, Utah 84147
(801) 322-7000

October 9, 1995

Kennecott

James W. Carter, Director
Utah Department of Natural Resources
Division of Oil, Gas and Mining
355 West North Temple, 3 Triad Center, Suite 350
Salt Lake City, Utah 84180-1203

Dear Mr. Carter:

Attached please find a sealed envelope containing a confidential copy of the Kennecott Holdings Corporation and the Kennecott Energy and Coal Company (the Kennecott Group) 1994 Annual Report. This information is required with our application for self bonding associated with the Northern Expansion of our existing tailings impoundment (the North Impoundment Project).

The Kennecott Group is not required to furnish financial information to the public. Unauthorized disclosure of financial information would be detrimental to the interests of the Kennecott Group.

Please recognize that the enclosed financial information is the property of the Kennecott Group and may not be copied, summarized, quoted from, referred to, or circulated in any manner outside the Division of Oil, Gas and Mining (the Division) without specific written consent from the Kennecott Group.

The Kennecott Group requires your agreement that the information enclosed herewith will be used solely for the limited purposes of the determination by the Division, of our ability to self bond, and will be maintained in strict confidence by the Division in accordance with the terms of this letter and in the spirit of Minerals Rule R647-4-115 entitled "Confidential Information".

Please acknowledge your agreement to these terms by signing and returning one of the duplicate originals of this letter to me. If you are unable to comply please return the envelope to me unopened.

Sincerely,

Roger P. Johnson

Enclosure

Recipient Signature

By: _____

Name: _____

Title: _____

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